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Austin, TX 78731-4280  
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REDACTED FOR PUBLIC INSPECTION

VIA ECFS

June 25, 2014

Ms. Marlene H. Dortch, Secretary  
Federal Communications Commission  
Office of the Secretary  
445 12<sup>th</sup> Street, S.W.  
Washington, D.C. 20554

RE: **REQUEST FOR CONFIDENTIAL TREATMENT** – *Connect America Fund*, WC Docket No. 10-90;  
*Lifeline and Link Up Reform and Modernization*, WC Docket No. 11-42

Request that Information Submitted to the Commission be Withheld from Public Inspection Pursuant to 47 C.F.R. §0.459 and 5 U.S.C. §552(b)(4): Five-Year Service Quality Improvement Plan included in FCC Form 481

Confidential Financial Information – Subject to Protective Order in WC Docket Nos. 10-90, 07-135, 05-337, 03-109, CC Docket Nos. 01-92, 96-45, GN Docket No. 09-51, WT Docket No. 10-208, Before the Federal Communications Commission

Dear Ms. Dortch:

In accordance with the annual reporting requirements of 47 C.F.R. §§54.313 and 54.422, Prairie Grove Telephone Company (the Company), Study Area Code 401718, is submitting a completed FCC Form 481 to the Commission via its Electronic Comment Filing System (ECFS) in WC Docket Nos. 10-90 and 11-42. The Company, by its authorized representative, hereby requests confidential treatment of two attachments to its FCC Form 481: (1) the five-year service quality improvement plan and (2) the financial annual report, both of which were redacted in the ECFS submission. The request for confidential treatment of the five-year plan is being made pursuant to section 0.459 of the Commission's rules and Exemption 4 of the Freedom of Information Act (FOIA). The request for confidential treatment of the financial annual report is being made pursuant to the FCC's November 16, 2012 *Protective Order* in WC Docket No. 10-90 *et al.* These attachments contain competitively sensitive data that Prairie Grove Telephone Company maintains as confidential and does not normally make available to the public. Release of this information would have a substantial negative impact on the Company.

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#### **Five-Year Service Quality Improvement Plan**

Pursuant to section 0.459 of the Commission's rules and Exemption 4 of FOIA, Prairie Grove Telephone Company requests that the text and data extracted from its five-year service quality improvement plan be withheld from public inspection because it contains competitively sensitive commercial and financial information that the Company keeps confidential. Public availability of this information would have a substantial negative impact on the Company.

In accordance with section 0.459 of the Commission's rules, the following information is provided in support of this request:

(1) Identification of the specific information for which confidential treatment is sought:

Attachment to Line 112 of FCC Form 481 – Five-Year Service Quality Improvement Plan. Specifically, confidential treatment is sought for all information in the five-year plan related to the Company's access line counts, existing broadband capabilities, and its network investment plans through 2019 that will improve service quality for its customers.

(2) Identification of the Commission proceeding in which the information was submitted or a description of the circumstances giving rise to the submission:

The information was submitted in WC Docket Nos. 10-90 and 11-42 as an attachment to FCC Form 481- the Carrier Annual Reporting Data Collection Form. Section 100 of FCC Form 481 requires incumbent local exchange carriers receiving high cost support to attach a five-year service quality improvement plan, pursuant to 47 C.F.R. §§54.202(a)(1)(ii) and 54.313(a)(1).

(3) Explanation of the degree to which the information is commercial or financial, or contains a trade secret or is privileged:

The five-year service quality improvement plan contains granular information on the Company's access line counts and existing broadband capabilities as well as detailed plans for financial investments in its network through 2019 to improve service to subscribers. This is closely guarded, privileged information that the Company does not make publicly available.

(4) Explanation of the degree to which the information concerns a service that is subject to competition:

Broadband is subject to increasing competition in the areas served by rural, rate-of-return incumbent local exchange carriers (RLECs). Virtually all RLECs face competition from one or more wireless Internet service providers. Most RLECs also face competition from at least one other wireline broadband provider such as a larger cable company, who will typically seek to "cherry pick" the lower cost portions of the study area. In addition, all RLECs face competition throughout their territories from satellite broadband providers.

(5) Explanation of how disclosure of the information could result in substantial competitive harm:

Disclosure of the information contained in the five-year plan would provide competitors with detailed, granular information regarding the Company's access line count, its existing broadband capabilities, and its strategic plans for network investments. This would give competitors invaluable confidential information with which to develop their own strategies for investing in the service area, thereby bringing substantial competitive harm to the Company.

(6) Identification of any measures taken by the submitting party to prevent unauthorized disclosure:

The Company has continually treated the extracted information in its five-year plan as confidential and carefully controls the information to protect it from competitors. Access to the information is limited to employees that require it and to non-employees with confidentiality obligations such as lenders, consultants, auditors, and attorneys. In addition, when such information is required to be submitted to a state regulatory authority it has been filed as confidential information, not available to the public.

(7) Identification of whether the information is available to the public and the extent of any previous disclosure of the information to third parties:

The redacted information in the five-year plan is not available to the public, and third party access is limited as described in (6) above.

(8) Justification of the period during which the submitting party asserts that material should not be available for public disclosure:

The Company requests that the extracted information be withheld from public inspection indefinitely. Although the information reflects the Company's service improvement plans for a five year period, it would provide a very useful baseline for competitors for several years beyond that period.

(9) Any other information that the party seeking confidential information treatment believes may be useful in assessing whether its request for confidentiality should be granted:

Exemption 4 of FOIA shields from public disclosure commercial or financial information obtained from a person that is privileged or confidential. Based on the responses provided above, the information in question satisfies this test.

**Financial Annual Report**

Section 3005 of FCC Form 481 requires a privately-held rate-of-return carrier receiving high cost support to attach a full and complete annual report of the Company's financial condition and operations pursuant to 47 C.F.R. §54.313(f)(2). Prairie Grove Telephone Company seeks confidential treatment of its financial annual report pursuant to the November 16, 2012 *Protective Order* in WC Docket No. 10-90, *et al.*<sup>1</sup> The *Protective Order* specifically covers information filed pursuant to 47 C.F.R. §54.313(f)(2).

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<sup>1</sup> *Connect America Fund et al.*, WC Docket No. 10-90 *et al.*, *Protective Order*, DA 12-1857 (rel. Nov. 16, 2012).

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Prairie Grove Telephone Company is providing to the Office of the Secretary, under seal, this cover letter and the Form 481 filing which includes the confidential information that is being requested to be withheld from public inspection.

Each page of the five-year service quality improvement plan confidential submission bears the legend, "CONFIDENTIAL – NOT FOR PUBLIC DISCLOSURE."

Each page of the financial annual report confidential submission bears the legend, "CONFIDENTIAL FINANCIAL INFORMATION – SUBJECT TO PROTECTIVE ORDER IN WC DOCKET NOS. 10-90, 07-135, 05-337, 03-109, CC DOCKET NOS. 01-92, 96-45, GN DOCKET NO. 09-51, WT DOCKET NO. 10-208, BEFORE THE FEDERAL COMMUNICATIONS COMMISSION."

Two copies of the Form 481 filing in redacted form and an accompanying cover letter are also being provided with the confidential filing. Each page of the redacted filing and accompanying cover letter is marked "REDACTED – FOR PUBLIC INSPECTION."

Two copies of this cover letter and the Form 481 filing with the confidential information are also being delivered to Mr. Charles Tyler, Telecommunications Access Policy Division, Wireline Competition Bureau.

The confidential information has also been submitted to the Universal Service Administrative Company through its E-File system as an attachment to the FCC Form 481.

This cover letter includes no confidential information and the text is the same in both the non-redacted and redacted versions except for the confidentiality markings.

Please contact me if you have any questions.

Sincerely,

A handwritten signature in black ink that reads "Lynette Hampton". The signature is written in a cursive, flowing style.

Lynette Hampton  
Authorized Representative for  
Prairie Grove Telephone Company

LH/pjf

Enclosures

cc: Mr. Charles Tyler, Telecommunications Access Policy Division, Wireline Competition Bureau,  
Federal Communications Commission, (2 hardcopies of non-redacted submission)

Mr. Rick Reed, Prairie Grove Telephone Company

**FCC Form 481 - Carrier Annual Reporting  
Data Collection Form**

 FCC Form 481  
 OMB Control No. 3060-0986/OMB Control No. 3060-0819  
 July 2013

|   |                      |
|---|----------------------|
| <010> Study Area Code   | 401718               |
| <015> Study Area Name   | PRAIRIE GROVE TEL CO |
| <020> Program Year  | 2015                 |
| <030> Contact Name: Person USAC should contact with questions about this data         | Rick Reed            |
| <035> Contact Telephone Number:<br>Number of the person identified in data line <030> | 4798467227 ext.      |
| <039> Contact Email Address:<br>Email of the person identified in data line <030>     | treed@pgtc.com       |

| ANNUAL REPORTING FOR ALL CARRIERS   |  | 54.313<br>Completion<br>Required    | 54.422<br>Completion<br>Required    |
|---|--|-------------------------------------|-------------------------------------|
| (check box when complete)   |  |                                     |                                     |
| <100> Service Quality Improvement Reporting   | (complete attached worksheet)  | <input type="checkbox"/>            | <input type="checkbox"/>            |
| <200> Outage Reporting (voice)  | (complete attached worksheet)  | <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> |
| <210> <input checked="" type="checkbox"/> <-- check box if no outages to report           |  | <input checked="" type="checkbox"/> | <input type="checkbox"/>            |
| <300> Unfulfilled Service Requests (voice)  | 0  | <input type="checkbox"/>            | <input type="checkbox"/>            |
| <310> Detail on Attempts (voice)  | <div style="border: 1px solid black; height: 40px; width: 100%;"></div><br>(attach descriptive document) | <input type="checkbox"/>            | <input type="checkbox"/>            |
| <320> Unfulfilled Service Requests (broadband)  | 0  | <input checked="" type="checkbox"/> | <input type="checkbox"/>            |
| <330> Detail on Attempts (broadband)  | <div style="border: 1px solid black; height: 40px; width: 100%;"></div><br>(attach descriptive document) | <input type="checkbox"/>            | <input type="checkbox"/>            |
| <400> Number of Complaints per 1,000 customers (voice)                                    |  |                                     |                                     |
| <410> Fixed   | 0.0  | <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> |
| <420> Mobile  | 0.0  | <input type="checkbox"/>            | <input type="checkbox"/>            |
| <430> Number of Complaints per 1,000 customers (broadband)                                |  | <input checked="" type="checkbox"/> | <input type="checkbox"/>            |
| <440> Fixed   | 0.0  | <input type="checkbox"/>            | <input type="checkbox"/>            |
| <450> Mobile  | 0.0  | <input type="checkbox"/>            | <input type="checkbox"/>            |
| <500> Service Quality Standards & Consumer Protection Rules Compliance                    | (check to indicate certification)  | <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> |
| <510> <div style="border: 1px solid black; padding: 2px;">401718ar510.pdf</div>           | (attached descriptive document)  | <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> |
| <600> Functionality in Emergency Situations   | (check to indicate certification)  | <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> |
| <610> <div style="border: 1px solid black; padding: 2px;">401718ar610.pdf</div>           | (attached descriptive document)  | <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> |
| <700> Company Price Offerings (voice)   | (complete attached worksheet)  | <input checked="" type="checkbox"/> | <input type="checkbox"/>            |
| <710> Company Price Offerings (broadband)   | (complete attached worksheet)  | <input checked="" type="checkbox"/> | <input type="checkbox"/>            |
| <800> Operating Companies and Affiliates  | (complete attached worksheet)  | <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> |
| <900> Tribal Land Offerings (Y/N)? <input type="radio"/> <input checked="" type="radio"/> | (if yes, complete attached worksheet)  | <input checked="" type="checkbox"/> | <input type="checkbox"/>            |
| <1000> Voice Services Rate Comparability  | (check to indicate certification)  | <input checked="" type="checkbox"/> | <input type="checkbox"/>            |
| <1010> <div style="border: 1px solid black; padding: 2px;">401718ar1010.pdf</div>         | (attach descriptive document)  | <input checked="" type="checkbox"/> | <input type="checkbox"/>            |
| <1100> Terrestrial Backhaul (Y/N)? <input checked="" type="radio"/> <input type="radio"/> | (if not, check to indicate certification)  | <input checked="" type="checkbox"/> | <input type="checkbox"/>            |
| <1110>  | (complete attached worksheet)  | <input type="checkbox"/>            | <input type="checkbox"/>            |
| <1200> Terms and Condition for Lifeline Customers   | (complete attached worksheet)  | <input type="checkbox"/>            | <input checked="" type="checkbox"/> |

**Price Cap Carriers, Proceed to Price Cap Additional Documentation Worksheet**

Including Rate-of-Return Carriers affiliated with Price Cap Local Exchange Carriers

|        |                                   |                          |                          |
|--------|-----------------------------------|--------------------------|--------------------------|
| <2000> | (check to indicate certification) | <input type="checkbox"/> | <input type="checkbox"/> |
| <2005> | (complete attached worksheet)     | <input type="checkbox"/> | <input type="checkbox"/> |

**Rate of Return Carriers, Proceed to ROR Additional Documentation Worksheet**

|        |                                   |                                     |                          |
|--------|-----------------------------------|-------------------------------------|--------------------------|
| <3000> | (check to indicate certification) | <input checked="" type="checkbox"/> | <input type="checkbox"/> |
| <3005> | (complete attached worksheet)     | <input checked="" type="checkbox"/> | <input type="checkbox"/> |

(100) Service Quality Improvement Reporting  
Data Collection Form

FCC Form 481  
OMB Control No. 3060-0986/OMB Control No. 3060-0819  
July 2013

|       |  |   |
|-------|--|---|
| <010> | Study Area Code  | 401718  |
| <015> | Study Area Name  | PRAIRIE GROVE TEL CO  |
| <020> | Program Year   | 2015  |
| <030> | Contact Name - Person USAC should contact regarding this data                                  | Rick Reed   |
| <035> | Contact Telephone Number - Number of person identified in data line <030>                      | 4798467227 ext.   |
| <039> | Contact Email Address - Email Address of person identified in data line <030>                  | treeed@pgtc.com   |
| <110> | Has your company received its ETC certification from the FCC?                                  | <input type="radio"/> (yes / no) <input checked="" type="radio"/> |
| <111> | If your answer to Line <110> is yes, do you have an existing "5 year plan" filed with the FCC? | <input type="radio"/> (yes / no) <input type="radio"/>            |

If your answer to Line <111> is yes, then you are required to file a progress report, on line <112> delineating the status of your company's existing § 54.202(a) "5 year plan" on file with the FCC, as it relates to your provision of voice telephony service.

<112> Attach Five-Year Service Quality Improvement Plan or, in subsequent years, your annual progress report filed pursuant to 47 C.F.R. § 54.313(a)(1). If your company is a CETC which only receives frozen support, your progress report is only required to address voice telephony service.



Name of Attached Document

Please check these boxes below to confirm that the attached document(s), on line 112, contains a progress report on its five-year service quality improvement plan pursuant to § 54.202(a). The information shall be submitted at the wire center level or census block as appropriate.

|       |   |                          |
|-------|---|--------------------------|
| <113> | Maps detailing progress towards meeting plan targets                                      | <input type="checkbox"/> |
| <114> | Report how much universal service (USF) support was received                              | <input type="checkbox"/> |
| <115> | How (USF) was used to improve service quality   | <input type="checkbox"/> |
| <116> | How (USF) was used to improve service coverage  | <input type="checkbox"/> |
| <117> | How (USF) was used to improve service capacity  | <input type="checkbox"/> |
| <118> | Provide an explanation of network improvement targets not met in the prior calendar year. | <input type="checkbox"/> |

**(200) Service Outage Reporting (Voice)  
Data Collection Form**

FCC Form 481  
OMB Control No. 3060-0986/OMB Control No. 3060-0819  
July 2013

|       |   |                      |
|-------|---|----------------------|
| <010> | Study Area Code   | 401718               |
| <015> | Study Area Name   | PRAIRIE GROVE TEL CO |
| <020> | Program Year  | 2015                 |
| <030> | Contact Name - Person USAC should contact regarding this data                 | Rick Reed            |
| <035> | Contact Telephone Number - Number of person identified in data line <030>     | 4798467227 ext.      |
| <039> | Contact Email Address - Email Address of person identified in data line <030> | treed@pgtc.com       |

[illegible]









(900) Tribal Lands Reporting  
Data Collection Form

FCC Form 481  
OMB Control No. 3060-0986/OMB Control No. 3060-0819  
July 2013

|       |   |                      |
|-------|---|----------------------|
| <010> | Study Area Code   | 401718               |
| <015> | Study Area Name   | PRAIRIE GROVE TEL CO |
| <020> | Program Year  | 2015                 |
| <030> | Contact Name - Person USAC should contact regarding this data                 | Rick Reed            |
| <035> | Contact Telephone Number - Number of person identified in data line <030>     | 4798467227 ext.      |
| <039> | Contact Email Address - Email Address of person identified in data line <030> | treed@gtc.com        |

|       |                                    |
|-------|------------------------------------|
| <910> | Tribal Land(s) on which ETC Serves |
|-------|------------------------------------|

|       |   |
|-------|---|
| <920> | Tribal Government Engagement Obligation |
|-------|---|

Name of Attached Document

If your company serves Tribal lands, please select (Yes, No, NA) for each these boxes to confirm the status described on the attached document(s), on line 920, demonstrates coordination with the Tribal government pursuant to § 54.313(a)(9) includes:

|                            |
|----------------------------|
| Select<br>(Yes, No,<br>NA) |
|                            |
|                            |
|                            |
|                            |
|                            |
|                            |
|                            |
|                            |
|                            |

- <921> Needs assessment and deployment planning with a focus on Tribal community anchor institutions.
- <922> Feasibility and sustainability planning;
- <923> Marketing services in a culturally sensitive manner;
- <924> Compliance with Rights of way processes
- <925> Compliance with Land Use permitting requirements
- <926> Compliance with Facilities Siting rules
- <927> Compliance with Environmental Review processes
- <928> Compliance with Cultural Preservation review processes
- <929> Compliance with Tribal Business and Licensing requirements.

(1100) No Terrestrial Backhaul Reporting

Data Collection Form

FCC Form 481

OMB Control No. 3060-0986/OMB Control No. 3060-0819

July 2013

|       |   |                      |
|-------|---|----------------------|
| <010> | Study Area Code   | 401718               |
| <015> | Study Area Name   | PRAIRIE GROVE TEL CO |
| <020> | Program Year  | 2015                 |
| <030> | Contact Name - Person USAC should contact regarding this data                 | Rick Reed            |
| <035> | Contact Telephone Number - Number of person identified in data line <030>     | 4798467227 ext.      |
| <039> | Contact Email Address - Email Address of person identified in data line <030> | treed@pgtc.com       |

☐

<1120> Please check this box to confirm no terrestrial backhaul options exist within the supported area pursuant to § 54.313(G)

☐

<1130> Please check this box to confirm the reporting carrier offers broadband service of at least 1 Mbps downstream and 256 kbps upstream within the supported area pursuant to § 54.313(G)

(1200) Terms and Condition for Lifeline Customers

Lifeline Data Collection Form

FCC Form 481  
OMB Control No. 3060-0986/OMB Control No. 3060-0819  
July 2013

|       |   |                      |
|-------|---|----------------------|
| <010> | Study Area Code   | 401718               |
| <015> | Study Area Name   | PRAIRIE GROVE TEL CO |
| <020> | Program Year  | 2015                 |
| <030> | Contact Name - Person USAC should contact regarding this data                 | Rick Reed            |
| <035> | Contact Telephone Number - Number of person identified in data line <030>     | 4798467227 ext.      |
| <039> | Contact Email Address - Email Address of person identified in data line <030> | treed@pgtc.com       |

|        |  |      |   |
|--------|--|------|---|
| <1210> | Terms & Conditions of Voice Telephony Lifeline Plans |      | Name of Attached Document   |
| <1220> | Link to Public Website                               | HTTP | <a href="http://www.pgtc.com/?q=residential-telephone">http://www.pgtc.com/?q=residential-telephone</a> |

"Please check these boxes below to confirm that the attached document(s), on line 1210, or the website listed, on line 1220, contains the required information pursuant to § 54.422(a)(2) annual reporting for ETCs receiving low-income support, carriers must annually report:

|        |   |                                     |
|--------|---|-------------------------------------|
| <1221> | Information describing the terms and conditions of any voice telephony service plans offered to Lifeline subscribers, | <input checked="" type="checkbox"/> |
| <1222> | Details on the number of minutes provided as part of the plan,  | <input checked="" type="checkbox"/> |
| <1223> | Additional charges for toll calls, and rates for each such plan.  | <input checked="" type="checkbox"/> |

(2000) Price Cap Carrier Additional Documentation

Data Collection Form

FCC Form 481

OMB Control No. 3060-0986/OMB Control No. 3060-0819

July 2013

Including Rate-of-Return Carriers affiliated with Price Cap Local Exchange Carriers

|       |   |                      |
|-------|---|----------------------|
| <010> | Study Area Code   | 401718               |
| <015> | Study Area Name   | PRAIRIE GROVE TEL CO |
| <020> | Program Year  | 2015                 |
| <030> | Contact Name - Person USAC should contact regarding this data                 | Rick Reed            |
| <035> | Contact Telephone Number - Number of person identified in data line <030>     | 4798467227 ext.      |
| <039> | Contact Email Address - Email Address of person identified in data line <030> | treed@pgtc.com       |

CHECK the boxes below to note compliance as a recipient of Incremental Connect America Phase I support, frozen High Cost support, High Cost support to offset access charge reductions, and Connect America Phase II support as set forth in 47 CFR § 54.313(b),(c),(d),(e) the information reported on this form and in the documents attached below is accurate.

|   |   |                          |
|---|---|--------------------------|
| Incremental Connect America Phase I reporting                                 |   |                          |
| <2010>  | 2nd Year Certification (47 CFR § 54.313(b)(1))  | <input type="checkbox"/> |
| <2011>  | 3rd Year Certification (47 CFR § 54.313(b)(2))  | <input type="checkbox"/> |
| Price Cap Carrier Receiving Frozen Support Certification (47 CFR § 54.312(a)) |   |                          |
| <2012>  | 2013 Frozen Support Certification   | <input type="checkbox"/> |
| <2013>  | 2014 Frozen Support Certification   | <input type="checkbox"/> |
| <2014>  | 2015 Frozen Support Certification   | <input type="checkbox"/> |
| <2015>  | 2016 and future Frozen Support Certification  | <input type="checkbox"/> |
| Price Cap Carrier Connect America ICC Support (47 CFR § 54.313(d))            |   |                          |
| <2016>  | Certification Support Used to Build Broadband   | <input type="checkbox"/> |
| Connect America Phase II Reporting (47 CFR § 54.313(e))                       |   |                          |
| <2017>  | 3rd year Broadband Service Certification  | <input type="checkbox"/> |
| <2018>  | 5th year Broadband Service Certification  | <input type="checkbox"/> |
| <2019>  | Interim Progress Certification  | <input type="checkbox"/> |
| <2020>  | Please check the box to confirm that the attached document(s), on line 2021, contains the required information pursuant to § 54.313 (e)(3)(ii), as a recipient of CAF Phase II support shall provide the number, names, and addresses of community anchor institutions to which began providing access to broadband service in the preceding calendar year. |                          |

|        |  |  |
|--------|--|--|
| <2021> | Interim Progress Community Anchor Institutions | <div></div>  |
|        |  | Name of Attached Document Listing Required Information |

(3000) Rate Of Return Carrier Additional Documentation

Data Collection Form

FCC Form 481

OMB Control No. 3060-0986/OMB Control No. 3060-0819

July 2013

|       |   |                      |
|-------|---|----------------------|
| <010> | Study Area Code   | 401718               |
| <015> | Study Area Name   | PRAIRIE GROVE TEL CO |
| <020> | Program Year  | 2015                 |
| <030> | Contact Name - Person USAC should contact regarding this data                 | Rick Reed            |
| <035> | Contact Telephone Number - Number of person identified in data line <030>     | 4798467227 ext.      |
| <039> | Contact Email Address - Email Address of person identified in data line <030> | t.reed@pqt.c.com     |

CHECK the boxes below to note compliance on its five year service quality plan (pursuant to 47 CFR § 54.202(a)) and, for privately held carriers, ensuring compliance with the financial reporting requirements set forth in 47 CFR § 54.313(f)(2). I further certify that the information reported on this form and in the documents attached below is accurate.

|  |  |  |
|--|--|--|
| (3010)   | Progress Report on 5 Year Plan<br>Milestone Certification (47 CFR § 54.313(f)(1)(i))   | <div></div> <div>Name of Attached Document Listing Required Information</div>      |
| (3011)   | Please check this box to confirm that the attached document(s), on line 3012 contains the required information pursuant to § 54.313 (f)(1)(ii), the carrier shall provide the number, names, and addresses of community anchor institutions to which began providing access to broadband service in the preceding calendar year.   | <div><input type="checkbox"/></div>  |
| (3012)   | Community Anchor Institutions (47 CFR § 54.313(f)(1)(ii))  | <div></div> <div>Name of Attached Document Listing Required Information</div>      |
| (3013)   | Is your company a Privately Held ROR Carrier (47 CFR § 54.313(f)(2))   | <div><input type="radio"/></div>   |
| (3014)   | If yes, does your company file the RUS annual report   | <div><input type="radio"/></div>   |
| Please check these boxes to confirm that the attached document(s), on line 3017, contains the required information pursuant to § 54.313(f)(2) compliance requires: |  |  |
| (3015)   | Electronic copy of their annual RUS reports (Operating Report for Telecommunications Borrowers)  | <div><input type="checkbox"/></div>  |
| (3016)   | Document(s) for Balance Sheet, Income Statement and Statement of Cash Flows  | <div><input type="checkbox"/></div>  |
| (3017)   | If the response is yes on line 3014, attach your company's RUS annual report and all required documentation  | <div></div> <div>Name of Attached Document Listing Required Information</div>      |
| (3018)   | If the response is no on line 3014, Is your company audited?   | <div><input type="radio"/></div>   |
| (3019)   | If the response is yes on line 3018, please check the boxes below to confirm your submission, on line 3026 pursuant to § 54.313(f)(2), contains<br>Either a copy of their audited financial statement; or (2) a financial report in a format comparable to RUS Operating Report for Telecommunications   | <div><input type="checkbox"/></div> <div><input checked="" type="checkbox"/></div> |
| (3020)   | Document(s) for Balance Sheet, Income Statement and Statement of Cash Flows  | <div><input checked="" type="checkbox"/></div>                                     |
| (3021)   | Management letter issued by the independent certified public accountant that performed the company's financial audit.  | <div><input checked="" type="checkbox"/></div>                                     |
| (3022)   | If the response is no on line 3018, please check the boxes below to confirm your submission, on line 3026 pursuant to § 54.313(f)(2), contains:<br>Copy of their financial statement which has been subject to review by an independent certified public accountant; or 2) a financial report in a format comparable to RUS Operating Report for Telecommunications Borrowers, | <div><input type="checkbox"/></div>  |
| (3023)   | Underlying information subjected to a review by an independent certified public accountant   | <div><input type="checkbox"/></div>  |
| (3024)   | Underlying information subjected to an officer certification.  | <div><input type="checkbox"/></div>  |
| (3025)   | Document(s) for Balance Sheet, Income Statement and Statement of Cash Flows  | <div><input type="checkbox"/></div> <div>401718ar3026.pdf</div>                    |
| (3026)   | Attach the worksheet listing required information  | <div></div> <div>Name of Attached Document Listing Required Information</div>      |

|   |  |
|---|--|
| <b>Certification - Reporting Carrier<br/>Data Collection Form</b> | FCC Form 481<br>OMB Control No. 3060-0986/OMB Control No. 3060-0819<br>July 2013 |
|---|--|

|       |   |                      |
|-------|---|----------------------|
| <010> | Study Area Code   | 401718               |
| <015> | Study Area Name   | PRAIRIE GROVE TEL CO |
| <020> | Program Year  | 2015                 |
| <030> | Contact Name - Person USAC should contact regarding this data                 | Rick Reed            |
| <035> | Contact Telephone Number - Number of person identified in data line <030>     | 4798467227 ext.      |
| <039> | Contact Email Address - Email Address of person identified in data line <030> | treed@pgtc.com       |

**TO BE COMPLETED BY THE REPORTING CARRIER, IF THE REPORTING CARRIER IS FILING ANNUAL REPORTING ON ITS OWN BEHALF:**

| <b>Certification of Officer as to the Accuracy of the Data Reported for the Annual Reporting for CAF or LI Recipients</b>   |                                |
|---|--------------------------------|
| I certify that I am an officer of the reporting carrier; my responsibilities include ensuring the accuracy of the annual reporting requirements for universal service support recipients; and, to the best of my knowledge, the information reported on this form and in any attachments is accurate. |                                |
| Name of Reporting Carrier:  |                                |
| Signature of Authorized Officer:  | Date                           |
| Printed name of Authorized Officer:   |                                |
| Title or position of Authorized Officer:  |                                |
| Telephone number of Authorized Officer:   |                                |
| Study Area Code of Reporting Carrier:   | Filing Due Date for this form: |
| Persons willfully making false statements on this form can be punished by fine or forfeiture under the Communications Act of 1934, 47 U.S.C. §§ 502, 503(b), or fine or imprisonment under Title 18 of the United States Code, 18 U.S.C. § 1001.  |                                |



|   |  |
|---|--|
| <b>Certification - Agent / Carrier<br/>Data Collection Form</b> | FCC Form 481<br>OMB Control No. 3060-0986/OMB Control No. 3060-0819<br>July 2013 |
|---|--|

|   |                      |
|---|----------------------|
| <010> Study Area Code   | 401718               |
| <015> Study Area Name   | PRAIRIE GROVE TEL CO |
| <020> Program Year  | 2015                 |
| <030> Contact Name - Person USAC should contact regarding this data                 | Rick Reed            |
| <035> Contact Telephone Number - Number of person identified in data line <030>     | 4798467227 ext.      |
| <039> Contact Email Address - Email Address of person identified in data line <030> | treed@pgtc.com       |

**TO BE COMPLETED BY THE REPORTING CARRIER, IF AN AGENT IS FILING ANNUAL REPORTS ON THE CARRIER'S BEHALF:**

| Certification of Officer to Authorize an Agent to File Annual Reports for CAF or LI Recipients on Behalf of Reporting Carrier   |  |
|---|--|
| I certify that (Name of Agent) <u>Lynette Hampton</u> is authorized to submit the information reported on behalf of the reporting carrier. I also certify that I am an officer of the reporting carrier; my responsibilities include ensuring the accuracy of the annual data reporting requirements provided to the authorized agent; and, to the best of my knowledge, the reports and data provided to the authorized agent is accurate. |  |
| Name of Authorized Agent:   | <u>Lynette Hampton</u>   |
| Name of Reporting Carrier:  | <u>PRAIRIE GROVE TEL CO</u>                                    |
| Signature of Authorized Officer:  | <u>CERTIFIED ONLINE</u> Date: <u>06/25/2014</u>                |
| Printed name of Authorized Officer:   | <u>Rick Reed</u>   |
| Title or position of Authorized Officer:  | <u>General Manager</u>   |
| Telephone number of Authorized Officer:   | <u>4798477227 ext.</u>   |
| Study Area Code of Reporting Carrier:   | <u>401718</u> Filing Due Date for this form: <u>07/01/2014</u> |
| Persons willfully making false statements on this form can be punished by fine or forfeiture under the Communications Act of 1934, 47 U.S.C. §§ 502, 503(b), or fine or imprisonment under Title 18 of the United States Code, 18 U.S.C. § 1001.  |  |

**TO BE COMPLETED BY THE AUTHORIZED AGENT:**

| Certification of Agent Authorized to File Annual Reports for CAF or LI Recipients on Behalf of Reporting Carrier   |  |
|--|--|
| I, as agent for the reporting carrier, certify that I am authorized to submit the annual reports for universal service support recipients on behalf of the reporting carrier; I have provided the data reported herein based on data provided by the reporting carrier; and, to the best of my knowledge, the information reported herein is accurate. |  |
| Name of Reporting Carrier:   | <u>PRAIRIE GROVE TEL CO</u>                                    |
| Name of Authorized Agent or Employee of Agent:   | <u>Lynette Hampton</u>   |
| Signature of Authorized Agent or Employee of Agent:  | <u>CERTIFIED ONLINE</u> Date: <u>06/25/2014</u>                |
| Printed name of Authorized Agent or Employee of Agent:   | <u>Lynette Hampton</u>   |
| Title or position of Authorized Agent or Employee of Agent:  | <u>Authorized Representative</u>                               |
| Telephone number of Authorized Agent or Employee of Agent:   | <u>5126527725 ext.</u>   |
| Study Area Code of Reporting Carrier:  | <u>401718</u> Filing Due Date for this form: <u>07/01/2014</u> |
| Persons willfully making false statements on this form can be punished by fine or forfeiture under the Communications Act of 1934, 47 U.S.C. §§ 502, 503(b), or fine or imprisonment under Title 18 of the United States Code, 18 U.S.C. § 1001.   |  |

## Attachments







## LINE 112 – FIVE-YEAR SERVICE QUALITY IMPROVEMENT PLAN

Following is the initial five-year service quality improvement plan for Prairie Grove Telephone Company (“PGTC” or “the Company”) pursuant to 47 C.F.R. § 54.202(a)(1)(ii) that requires an eligible telecommunications carrier (ETC) to describe proposed improvements or upgrades to the ETC’s network throughout its service area. The *USF/ICC Transformation Order* establishes a public interest obligation for rate-of-return ETCs to provide broadband service at speeds of at least 4 Mbps downstream and 1 Mbps upstream (4:1) “upon reasonable request.” A service quality improvement plan cannot project where in the service area reasonable requests will be made. However, the proposed service improvements in this plan result in the availability of 4:1 or better service to a greater portion of the Company’s service area than is currently available.

Although this plan is a good faith effort by the Company, it is subject to change, given the uncertainty faced by ETCs regarding whether capital investments will be recoverable over the five year planning horizon. Factors that may affect the capital improvements plan include erosion of the customer base due to competition, alternative technologies, economic conditions in the service area, and unpredictable changes in the universal service support amounts an ETC receives.

PGTC owns and operates five exchanges serving subscribers in northwest Arkansas along the Oklahoma border. The service area includes portions of Washington and Crawford counties. The service area covers approximately 378 square miles.

### Baseline Network Description



*Table 1 – Current Broadband Capabilities*

| Exchange Name | Square Miles | Total Existing Access Lines | Estimated Total Population Served | Total Broadband Capable Lines | Estimated Broadband Capable Population | % Broadband Capable |
|---------------|--------------|-----------------------------|-----------------------------------|-------------------------------|--|---------------------|
|---------------|--------------|-----------------------------|-----------------------------------|-------------------------------|--|---------------------|

2014 – 2019 Service Quality Improvement Plan

Table 2 provides PGTC’s potential service quality improvements and associated capital expenditures for 2014 – 2019, by exchange, along with estimates of the population that will be served by the improvements.

Table 2 – Service Quality Improvement Plan

| Exchange | Description of Improvement | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | Estimated Population Served by Improvements |
|----------|----------------------------|------|------|------|------|------|------|---|
|----------|----------------------------|------|------|------|------|------|------|---|

|  |  |  |  |  |  |  |  |  |
|--|--|--|--|--|--|--|--|--|
|  |  |  |  |  |  |  |  |  |
|--|--|--|--|--|--|--|--|--|

Narrative Description: 2014 – 2019





## **LINE 510 - SERVICE QUALITY STANDARDS AND CONSUMER PROTECTION RULES COMPLIANCE**

Prairie Grove Telephone Company complies with applicable service quality standards and consumer protection rules for its voice and broadband services.

Service quality standards for voice service are established by the state commission. The Company consistently meets or exceeds those standards and provides reports to the state commission, in accordance with the state commission's rules.

The Company complies with any and all consumer protection obligations under state law.

The Company also complies with the following consumer best practices: (1) the Company discloses its rates and terms of service to customers; (2) the Company provides specific disclosures in its advertising; (3) the Company separately identifies carrier charges from taxes on its billing statements; (4) the Company provides ready access to customer service; (5) the Company promptly responds to consumer inquiries and complaints received from government agencies; and (6) the Company abides by policies for protection of consumer privacy.

Finally, the Company has a policy and established operating procedures that comply with the FCC's Customer Proprietary Network Information (CPNI) rules (47 C.F.R. §§64.2001-64.2011). Certification of the Company's compliance with CPNI rules and a description of the Company's operating procedures that ensure compliance are filed annually with the FCC.

## **LINE 610 - ABILITY TO FUNCTION IN EMERGENCY SITUATIONS**

Prairie Grove Telephone Company is able to function in emergency situations for both voice and broadband service. The Company has a reasonable amount of back-up power to ensure functionality without an external power source. Standby power generators are supplied at the central office, remote switch sites, and repeater sites to ensure functionality without an external power source until power is restored. The network is capable of managing traffic spikes resulting from emergency situations.

The Company is able to reroute traffic around damaged facilities. Although the Company's ability to reroute traffic around damaged facilities is not absolute and may be limited in certain circumstances, there is a restoration plan in place for expeditious recovery of service, including splicing of damaged facilities when warranted.

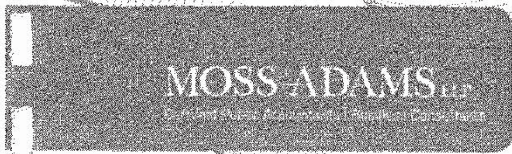
## **LINE 1010 – VOICE SERVICES RATE COMPARABILITY**

The Wireline Competition Bureau's most recent reasonable comparability benchmark for voice services is \$46.96, which includes the federal subscriber line charge ("SLC").<sup>1</sup>

In the exchanges served by Prairie Grove Telephone Company the highest single-line residential local rate, including any mandatory extended area service charge, is \$13.73. When the federal SLC and the state universal service fee are added, the total is below the reasonable comparability benchmark of \$46.96.

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<sup>1</sup> *Wireline Competition Bureau Announces Results of Urban Rate Survey for Voice Services; Seeks Comment on Petition for Extension of Time to Comply With New Rate Floor*, WC Docket No. 10-90, DA 14-384 (rel. Mar. 20, 2014), p. 2.



## REPORT OF INDEPENDENT AUDITORS

To the Board of Directors  
Prairie Grove Telephone Company

### Report on the Financial Statements

We have audited the accompanying financial statements of Prairie Grove Telephone Company, which comprise the balance sheets as of December 31, 2013 and 2012, and the related statements of income, stockholder's equity, and cash flows for the years then ended, and the related notes to the financial statements.

### *Management's Responsibility for the Financial Statements*

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### *Auditor's Responsibility*

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate for the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

REPORT OF INDEPENDENT AUDITORS (continued)

*Auditor's Responsibility (continued)*

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

*Opinion*

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Prairie Grove Telephone Company as of December 31, 2013 and 2012, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

*Mass Adams LLP*

Overland Park, Kansas  
March 13, 2014

**PRAIRIE GROVE TELEPHONE COMPANY**  
**BALANCE SHEETS**

**ASSETS**

|   | December 31, |      |
|---|--------------|------|
|   | 2013         | 2012 |
| <b>CURRENT ASSETS</b>                                 |              |      |
| Cash and cash equivalents                             |              |      |
| Accounts receivable                                   |              |      |
| Telecommunications accounts receivable                |              |      |
| Settlements and access accounts receivable            |              |      |
| Materials and supplies                                |              |      |
| Prepaid expenses and other current assets             |              |      |
| Total current assets                                  |              |      |
| <b>INVESTMENTS AND NONCURRENT ASSETS</b>              |              |      |
| Investments in nonaffiliates                          |              |      |
| Receivables from affiliates                           |              |      |
| Other assets  |              |      |
| Total investments and noncurrent assets               |              |      |
| <b>PROPERTY, PLANT, AND EQUIPMENT</b>                 |              |      |
| Regulated telecommunications plant in service         |              |      |
| Regulated telecommunications plant under construction |              |      |
| Nonregulated telecommunications plant in service      |              |      |
| Less accumulated depreciation                         |              |      |
| Net property, plant & equipment                       |              |      |
| Total assets  |              |      |

PRAIRIE GROVE TELEPHONE COMPANY  
BALANCE SHEETS

LIABILITIES AND STOCKHOLDER'S EQUITY

|  | December 31, |      |
|--|--------------|------|
|  | 2013         | 2012 |
| <b>CURRENT LIABILITIES</b>   |              |      |
| Accounts payable   |              |      |
| Accounts payable, affiliates   |              |      |
| Accrued liabilities  |              |      |
|  |              |      |
| Total current liabilities  |              |      |
|  |              |      |
| <b>LONG-TERM LIABILITIES</b>   |              |      |
| Deferred credits   |              |      |
|  |              |      |
| <b>STOCKHOLDER'S EQUITY</b>  |              |      |
| Capital stock, [REDACTED] par value, [REDACTED] shares authorized,<br>[REDACTED] shares issued and outstanding |              |      |
| Additional paid-in capital   |              |      |
| Retained earnings  |              |      |
|  |              |      |
| Total stockholder's equity   |              |      |
|  |              |      |
| Total liabilities and stockholder's equity   |              |      |

See accompanying notes.



**PRAIRIE GROVE TELEPHONE COMPANY**  
**STATEMENTS OF INCOME**

|                                      | Year Ended December 31, |      |
|--------------------------------------|-------------------------|------|
|                                      | 2013                    | 2012 |
| <b>OPERATING REVENUES</b>            |                         |      |
| Wireline                             |                         |      |
| Customer                             |                         |      |
| Intercarrier                         |                         |      |
| Interstate                           |                         |      |
| Intrastate                           |                         |      |
| Wireless interconnection             |                         |      |
| Universal service support, federal   |                         |      |
| Universal service support, state     |                         |      |
| Miscellaneous                        |                         |      |
| Total operating revenues             |                         |      |
| <b>OPERATING EXPENSES</b>            |                         |      |
| Plant specific operations            |                         |      |
| Plant nonspecific operations         |                         |      |
| Depreciation and amortization        |                         |      |
| Customer operations                  |                         |      |
| Corporate operations                 |                         |      |
| Other operating taxes                |                         |      |
| Nonregulated                         |                         |      |
| Total operating expenses             |                         |      |
| Net operating income                 |                         |      |
| <b>NONOPERATING INCOME (EXPENSE)</b> |                         |      |
| Interest and dividend income         |                         |      |
| Other nonoperating expense           |                         |      |
| Total nonoperating expense           |                         |      |
| Net Income                           |                         |      |



**PRAIRIE GROVE TELEPHONE COMPANY**  
**STATEMENTS OF STOCKHOLDER'S EQUITY**

|                            | Capital<br>Stock | Paid-in<br>Capital | Retained<br>Earnings | Total |
|----------------------------|------------------|--------------------|----------------------|-------|
| BALANCE, December 31, 2011 |                  |                    |                      |       |
| Net income                 |                  |                    |                      |       |
| Dividends                  |                  |                    |                      |       |
| BALANCE, December 31, 2012 |                  |                    |                      |       |
| Net income                 |                  |                    |                      |       |
| Dividends                  |                  |                    |                      |       |
| BALANCE, December 31, 2013 |                  |                    |                      |       |

See accompanying notes.

**PRAIRIE GROVE TELEPHONE COMPANY**  
**STATEMENTS OF CASH FLOWS**

|  | Year Ended December 31, |      |
|--|-------------------------|------|
|  | 2013                    | 2012 |
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>                                  |                         |      |
| Net income   |                         |      |
| Adjustments to reconcile net income to net cash<br>from operating activities |                         |      |
| Depreciation and amortization  |                         |      |
| Change in assets and liabilities   |                         |      |
| Accounts receivable  |                         |      |
| Telecommunications accounts receivable                                       |                         |      |
| Settlements and access accounts receivable                                   |                         |      |
| Other accounts receivable  |                         |      |
| Materials and supplies   |                         |      |
| Prepaid expenses and other current assets                                    |                         |      |
| Accounts payable   |                         |      |
| Accrued liabilities  |                         |      |
| Deferred credits   |                         |      |
| Net cash from operating activities   |                         |      |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>                                  |                         |      |
| Purchase of telecommunications plant   |                         |      |
| Purchase of investments  |                         |      |
| Redemption of investments  |                         |      |
| Proceeds from sales of property and equipment                                |                         |      |
| Net cash from investing activities   |                         |      |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES</b>                                  |                         |      |
| Change in receivables/payables from affiliates                               |                         |      |
| Dividends paid   |                         |      |
| Net cash from financing activities   |                         |      |
| <b>NET CHANGE IN CASH AND CASH EQUIVALENTS</b>                               |                         |      |
| <b>CASH AND CASH EQUIVALENTS, beginning of year</b>                          |                         |      |
| <b>CASH AND CASH EQUIVALENTS, end of year</b>                                |                         |      |

**PRAIRIE GROVE TELEPHONE COMPANY**  
**NOTES TO FINANCIAL STATEMENTS**

---

**Note 1 – Summary of Significant Accounting Policies**

**Description of entity** – Prairie Grove Telephone Company (the Company) is a telecommunications company located in Prairie Grove, Arkansas. The Company provides landline telecommunications services to rural portions of northwest Arkansas. The Company is a wholly-owned subsidiary of DD&B, Inc. (the Parent).

The Company was incorporated under the laws of the state of Arkansas on October 4, 1906.

**Accounting policies** – The financial statements of the Company have been prepared in conformity with accounting principles generally accepted in the United States of America that are applicable to rate-regulated public utilities. Such accounting principles are consistent, in all material respects, with accounting principles prescribed by the Federal Communications Commission (FCC) under Part 32, *Uniform System of Accounts for Telecommunications Companies*.

**Accounting estimates** – The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that effect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Significant estimates include depreciation expense and interstate access revenue settlements. Actual results could differ from those estimates.

**Cash and cash equivalents** – For the purposes of the statements of cash flows, the Company considers all highly-liquid investments purchased with a maturity of three months or less to be cash equivalents.

**Valuation of accounts receivable** – Accounts receivable are stated at the amount management expects to collect on outstanding balances. The Company reviews the collectability of accounts receivable annually based upon an analysis of outstanding receivables, historical collection information, and existing economic conditions. Receivables from subscribers are due 30 days after issuance of the subscriber bill. Receivables from other exchange carriers are typically outstanding 30 to 60 days before payment is received. Management provides for probable uncollectible amounts by directly reducing the account receivable based on its assessment of the current status of individual accounts. Balances that are still outstanding after management has used reasonable collection efforts are written off directly to accounts receivable. Management believes it has established adequate reserves for any risk associated with these receivables. At December 31, 2013 and 2012, management determined an allowance for doubtful accounts was not necessary.

**PRAIRIE GROVE TELEPHONE COMPANY**  
**NOTES TO FINANCIAL STATEMENTS**

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**Note 1 – Summary of Significant Accounting Policies (continued)**

**Materials and supplies** – Materials and supplies consist of fiber-optic cable, metallic cable, telephone equipment, and materials related to the telecommunications industry. Materials and supplies are stated at the lower of average cost or market.

**Investments in nonaffiliates** – Investments in nonaffiliates consist of the Company's ownership of the common stock of Associated Network Partners, Inc., NECA Services, Inc., and other miscellaneous investments. These investments have no readily determinable fair value and are recorded at cost. The Company has not identified any circumstances that would indicate possible impairments to the carrying values.

**Property, plant, and equipment** – Property, plant, and equipment are stated at original cost when first devoted to public service and includes assets that are jointly used for regulated and nonregulated activities. The cost of additions and substantial betterments of property, plant, and equipment is capitalized. The cost of additions to plant includes contracted work, direct labor, materials, and allocable overheads. The cost of maintenance and repairs is charged to operating expenses.

Property, plant, and equipment are depreciated using straight-line methods over their estimated useful lives. In accordance with composite group depreciation methodology, when a portion of the Company's depreciable property, plant, and equipment is retired in the ordinary course of business, the original cost is charged to accumulated depreciation.

**Long-lived assets** – The Company reviews the carrying value of its nonregulated long-lived assets for impairment whenever certain triggering events or changes in circumstances indicate that the carrying amounts of any asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the excess of the carrying amount over the fair value of the assets. No triggering events were identified by management for the years ended December 31, 2013 and 2012.

**Revenue recognition** – Monthly service fees derived from local network service are billed one month in advance but recognized in the month that service is provided.

Usage sensitive revenues, such as access (revenues earned for originating/terminating long-distance calls) and long-distance, are generally billed as a per-minute charge.



**PRAIRIE GROVE TELEPHONE COMPANY**  
**NOTES TO FINANCIAL STATEMENTS**

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**Note 1 – Summary of Significant Accounting Policies (continued)**

**Revenue recognition (continued)**

Network access revenues also include settlements based on the Company's participation in the revenue pools administered by the National Exchange Carrier Association (NECA). Settlement revenues are determined by annually prepared separations and interstate access cost studies. These studies are prepared subsequent to year-end and, therefore, the related revenues are recorded on the books based on an estimate of NECA pool earnings and on other assumptions related to information utilized in the preparation of the Company's cost study. Revenues for the current year are based on estimates prior to the submission of the cost study reporting actual results of operations. The studies are subject to a 24-month pool adjustment period by NECA. There was an insignificant revenue impact in 2013 and 2012 for adjustments related to prior year differences between the recorded estimates and actual revenues. Management does not anticipate significant adjustments to recorded revenues for the years ended December 31, 2013 or 2012, in future years.

Network access revenues include settlements from NECA that compensate the Company for the digital subscriber line transport related to the provision of Internet services by its nonregulated affiliate.

The Company's wireline Universal Service Fund (USF) revenue is intended to compensate the Company for the high cost of providing rural telephone service. USF revenue includes funds received for high cost loop support (HCLS), interstate common line support (ICLS), local switching support (LSS) prior to July 1, 2012, Connect America Fund (CAF), Arkansas High Cost Fund (ARHCF), and other miscellaneous programs. HCLS and ICLS are based on the Company's current relative level of operating expense and plant investment. Support from the CAF is based on a historical frozen amount related to 2011 investment and expenses associated with the switching function and certain 2011 intrastate access revenues, which together make up the CAF base. The CAF base will be reduced by five percent each year in determining CAF support. The ARHCF is a state USF provided to telecommunications companies in Arkansas and is allocated to each company based on their relative uncapped federal HCLS.

**Regulation** – The Company's services are subject to rate regulation as follows:

- Local telephone and intrastate access revenues and ARHCF are regulated by the Arkansas Public Service Commission. The FCC also has assumed preemptive authority to regulate intrastate telecommunications services, including intrastate access rates.
- Interstate access revenues are regulated by the FCC through its regulation of rates and settlements procedures as administered by NECA.
- Federal Universal Service revenues are administered by Universal Service Administrative Company, based on rules established by the FCC.

Other sources of revenues are not rate regulated. They include long-distance, equipment sales, directory, rents, billing, and other incidental services.

Nonregulated expenses and nonregulated plant are directly attributable to nonregulated services.

**PRAIRIE GROVE TELEPHONE COMPANY**  
**NOTES TO FINANCIAL STATEMENTS**

---

**Note 1 – Summary of Significant Accounting Policies (continued)**

**Regulation (continued)**

All other operating expenses and telecommunications plant are related primarily to wireline revenues; however, some of these costs jointly relate to regulated and nonregulated services. For interstate access settlement, USF, rate case, and other regulatory purposes, the portion of these common costs related to nonregulated activities are removed in accordance with Part 64 of the FCC rules in order to ensure regulated revenues are based on costs of providing regulated services.

The FCC reformed intercarrier compensation and Universal Service funding mechanisms. The majority of the new rules took effect, subject to various transition provisions, on July 1, 2012 as follows:

- Limitations on the amount of support received per line
- Limitations on capital expenditures and operating expenses recoverable from the USF
- Benchmarks for minimum local rates charged to end users by recipients of support
- The establishment of the access recovery charge (ARC) billed to end users
- The elimination of LSS
- The establishment of the CAF, a new funding mechanism for investment and expenses related to the switching and transport functions
- The structured reduction of carrier access rates charged by the Company to other carriers using its network to complete long distance calls

**Concentration of market risk** – The Company receives a significant portion of its annual operating revenues from federal and state USF. For the years ended December 31, 2013 and 2012, revenues from federal and state USF represent approximately [REDACTED] respectively, of operating revenues.

**Concentrations of credit risk** – The Company maintains its cash in bank deposit accounts, which, at times, may exceed federally-insured limits. The insured limit is \$250,000 per institution. The Company has not experienced any losses in such accounts. Management believes it is not exposed to any significant credit risk on cash and cash equivalents.



**PRAIRIE GROVE TELEPHONE COMPANY**  
**NOTES TO FINANCIAL STATEMENTS**

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**Note 1 – Summary of Significant Accounting Policies (continued)**

**Income taxes** – The Company has elected to be taxed under the provisions of Subchapter S of the Internal Revenue Code and files a consolidated income tax return with DD&B, Inc. Earnings and losses are included in the personal income tax returns of the stockholders and taxed depending on their personal tax strategies. Accordingly, the Company will not incur income tax obligations, and financial statements do not include a provision for income taxes.

The Company records uncertain tax positions if the likelihood the position will be sustained upon examinations is less than 50 percent. As of December 31, 2013 and 2012, the Company had no amounts related to uncertain tax positions. The Company is no longer subject to federal or state income tax examinations by the tax authorities where the Company filed returns for the years before 2010. In accordance with the *Uniform System of Accounts* prescribed by the FCC, interest and penalties, if any, are recorded as interest expense and other expense, respectively, and are excluded from income tax expense.

**Taxes imposed by governmental authorities** – The Company's customers are subject to taxes assessed by various governmental authorities on many different types of revenue transactions with its customers. These specific taxes are charged to and collected from the Company's customers and are subsequently remitted to the appropriate taxing authority. These taxes are accounted for on a net basis and are excluded from revenues.

**Subsequent events** – Subsequent events are events or transactions that occur after the balance sheet date but before the financial statements are available to be issued. The Company recognizes in the financial statements the effects of all subsequent events that provide additional evidence about conditions that existed at the date of the balance sheet, including the estimates inherent in the process of preparing the financial statements. The Company's financial statements do not recognize subsequent events that provide evidence about conditions that did not exist at the date of the balance sheet but arose after the balance sheet date and before the financial statements are available to be issued.

The Company has evaluated subsequent events through March 13, 2014, which is the date the financial statements are available to be issued.

**Reclassification** – Certain reclassifications have been made to the 2012 financial statements to conform to the 2013 presentation. These reclassifications had no effect on net income or stockholder's equity as previously reported.

**PRAIRIE GROVE TELEPHONE COMPANY**  
**NOTES TO FINANCIAL STATEMENTS**

**Note 2 – Property, Plant, and Equipment**

Telecommunications plant balances, together with accumulated depreciation, consist of the following at December 31:

|                                       | Depreciable<br>Life | Plant<br>Account | Accumulated<br>Depreciation | 2013<br>Net Balance | 2012<br>Net Balance |
|---------------------------------------|---------------------|------------------|-----------------------------|---------------------|---------------------|
| Regulated telecommunications plant    |                     |                  |                             |                     |                     |
| General support assets                |                     |                  |                             |                     |                     |
| Central office assets                 |                     |                  |                             |                     |                     |
| Cable and wire facilities assets      |                     |                  |                             |                     |                     |
| Leasehold improvements                |                     |                  |                             |                     |                     |
| Plant under construction              |                     |                  |                             |                     |                     |
| Nonregulated telecommunications plant |                     |                  |                             |                     |                     |
| Pay stations                          |                     |                  |                             |                     |                     |
| Leased phones                         |                     |                  |                             |                     |                     |
| General support assets                |                     |                  |                             |                     |                     |

**Note 3 – Deferred Credits**

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|--|--|--|--|--|--|
|  |  |  |  |  |  |
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**Note 4 – 401(k) Plan**

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**PRAIRIE GROVE TELEPHONE COMPANY**  
**NOTES TO FINANCIAL STATEMENTS**

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**Note 5 - Related-Party Transactions**



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**Note 6 – Revenue**

Wireline revenues classified on the statements of income consist of the following:

- Customer revenues include end-user charges, such as the subscriber line charge, Federal Universal Service Charge, and ARC
- Universal Service support includes the amounts received from the USF for HCLS and the ARHCF, LSS, ICLS, and CAF
- All access charge and settlement revenue, except as described above, is classified as intercarrier revenue

Miscellaneous revenues consist of the following for the years ending December 31:

|                              | 2013 | 2012 |
|------------------------------|------|------|
| Miscellaneous                |      |      |
| Equipment sales              |      |      |
| Directory                    |      |      |
| Billing and collection       |      |      |
| Other                        |      |      |
| Uncollectible                |      |      |
| Total miscellaneous revenues |      |      |